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SIPDIS

DEPT OF COMMERCE - MATTHEW GAISFORD  
DEPT OF TREASURY - SARA GREY

E.O. 12958: N/A

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SUBJECT: UPDATE ON OPERATIONS AND EXPANSION OF PANAMA CANAL

¶1. (U) Summary. The Panama Canal Authority (ACP) has not yet determined the exact financing method for the third set of locks for the Panama Canal. However, a recent agreement with the Andean Development Corporation could provide 500 million USD of the 5.25 billion USD needed. The deadline for the design-build lock contract has been delayed to December 10 and a major insurance contract for new locks and other operations was awarded to Willis Ltd of England. For the past three quarters, tonnage through the canal was down 1.2%, but profits were up 10.8%. Despite the decrease in tonnage and the fact that the primary contract for the third locks has not been awarded, an ACP official raised the idea of a fourth set of locks. End Summary.

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CANAL FINANCING  
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¶2. (U) Administrator of the Panama Canal Authority (ACP), Alberto Aleman Zubieta, confirmed that the financing plan for the canal expansion has not been decided. While the ACP Board is considering various combinations of private and multilateral financing, it has not made any decisions. The ACP is being advised by Mizuho, a Japanese Bank. On a related topic, the Andean Development Corporation (La Corporacion Andina de Fomento - CAF), a multi-lateral financial institution that promotes sustainable development, signed an agreement with President Torrijos to grant full membership to Panama. As a result, CAF agreed to open an office in Panama to support 170 million USD in private and public sector projects. After the signing ceremony, President Torrijos stated to the press that CAF offered to finance 500 million USD of the estimated 5.25 billion USD expansion of the canal. The ACP FY2009 budget of 2.1 billion USD also contains 836 million USD designated for the canal expansion.

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DEADLINE FOR DESIGN-BUILD LOCK CONTRACT DELAYED  
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¶3. (U) The four pre-qualified consortia for the design-build lock contract now have until December 10 to submit their bids. The original deadline was August 22 and that was previously delayed to October 8. The reason for the latest delay is that the ACP reports that the consortia requested more time to fully develop the technical and price proposals. The ACP is mitigating the delay by having the bidders submit bids on standardized ACP forms. Also, the ACP is considering bringing in outside technical experts to review the information, which should speed the ACP's review of the bids. While the ACP assures that canal expansion is still on schedule to be completed in 2014, the schedule is already being compressed during the bidding process. (Comment. Post

received second hand information that the new deadline is the result of the French-led consortium requesting more time, which is in an indication of problems. The other three consortia indicate they do not need the extra time and that this delay will increase their bidding expenses. FCS Counselor scheduled meetings to gather first hand information. End Comment.)

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INSURANCE BROKERAGE CONTRACT AWARDED  
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14. (U) Willis Ltd, an English firm, won the contract to provide insurance advisory services for a construction risk policy and general liability coverage for the new locks and for two excavation projects for the channel access on the Pacific side. Willis Ltd was the lowest bidder at 695,000 USD. The other bidders along with the country of origin and their bid price follow: 1) Jardine Lloyd Thompson Ltd, England, 1,860,000 USD 2) Arthur Gallagher & Co., United States, 3,660,000 3) Marsh USA Inc, United States, 825,585 USD 4) AON Global, Mexico, 1,167,250.

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TRAFFIC BY TONNAGE DOWN; PROFITS UP  
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15. (U) For the three quarters from October 2007 through June 2008, tonnage carried through the canal is down 1.2%. However, revenue for the same period is up 10.8% due to different tariffs for different types of ships and cargo. The ACP attributes the decrease in tonnage to the weakening American economy. The U.S. is the number one origin and destination of Panama Canal traffic.

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FOURTH SET OF LOCKS?  
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16. (U) Despite a recent decrease in canal traffic, Rodolfo Sabonge, Vice-President of Analysis and Marketing for the ACP, believes long term demand for canal passages supports a feasibility study on a fourth set of locks. Sabonge expects canal traffic to increase by 3% per year for three decades due to increased traffic between China and the East Coast of the U.S. Post will monitor the situation to see if the idea gains traction.

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